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Comparing the Attitudes of Consumers and Financial Experts towards Financial Products¹

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This article provides a psychological research on comparison between the consumers' and financial experts' attitudes towards financial products. We provide the psychological perspective to purchasing financial products through examining the financial risk perceptions and its dimensionality. Financial risks have been studied mainly through the calculated variance of financial value. However, some studies have pointed out that such understanding of financial risks among financial experts differs from that of ordinary consumers. Unlike financial experts, ordinary consumers tend to make investment decisions based on the risks that they perceive, and not necessarily on a calculated financial risk. Thus, a consumer's risk perception is one of the key factors in their investment behavior. This study aims to compare such consumers' financial risk perception with experts' financial risk perception. We conducted the research by interviewing two groups of Japanese office workers, ordinary consumer group and financial expert group. A trained interviewer asked the participants to discuss in a group various financial products, the risk perception associated with each of these products, investment cost, and the anticipated benefit from the investment. Content analysis of the interview demonstrated that they made investment decisions based on five factors; social factors, personal factors, cost, return, risk. We then categorized these factors into two dimensions: a socio-financial dimension and a financial perceptual dimension. Neither of these two dimensions contained a calculated variance of financial risks that experts use as indicators when they decide to invest. There are differences in risk perception dimensions between ordinary consumers and financial expertise workers. In conclusion: (1) Consumers do not make investment decisions based on the calculated financial risks but rather on their mental models that consist of social and risk perception dimensions. (2) Ordinary consumers perceive the financial risks and costs different from the financial experts.

Key words: financial risk perception, investment decisions, consumer, financial expert

Purpose

This article provides psychological research that compares the financial perceptions between consumers and financial experts. Through an examination of risk perceptions and

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its dimensionality, a psychological perspective towards financial risk will be illuminated. Financial risks have been studied primarily through calculating the variance of its financial value. However, some studies have pointed out that such an understanding of financial risks among financial experts differs from those of ordinary consumers (Vlaev, Chater, & Stewart, 2009). Sasaki (2011) who conducted an interview with university students about financial risks in order to examine the risk perception of ordinary consumers. Sasaki revealed that financial perceptions comprised risks, returns, and costs. Furthermore Sasaki et al. (2011) conducted researches by interviewing Japanese university students in a finance class and in a psychology class about financial products and the associated risks. These researches suggested that financial class students who had further financial knowledge and psychology class students had different financial perceptions. Unlike experts, ordinary consumers like students in a psychology class tended to make an investment decision based on the risks that they subjectively perceived, ignoring calculated financial risks. Thus, a consumer's financial perception is a key factor in their investment behavior. This study aims to further scrutinize the quality of consumers' financial perceptions in a comparison with those of experts by conducting interviews with office workers.

Method

We conducted an interview six Japanese office workers regarding financial products and the associated risks. Being recruited by email informing the purpose of this study, they volunteered to join in. The participants were assigned into two groups; ordinary consumer group and financial expert group. The three financial experts who were employed by banks or securities companies. The others worked in non-financial sections of non-financial companies, so they were regarded as ordinary consumers. The ordinary consumer group consists of two males and one female (average age 42.00, SD=13.00) and financial expert group consists of one male and two females (average age 35.00, SD=11.36). A trained interviewer asked them to discuss several financial products in a group, collecting their comments involving the risk perception associated with each of these products, investment cost, and the anticipated returns from the investment.

Results

The authors who were trained of the KJ method content-analyzed the collected comments demonstrated that both groups, the customers and the financial experts, made investment decisions based on the five factors shown in Figure 1. These factors were then categorized into two dimensions: socio-financial and financial perceptual dimensions. The former comprises social factors and personal factors. Most social factors involve social and natural environmental events. Socio-financial dimension implicated the perceptions of socially financial situations associated investment. The latter comprises financial risks, returns, and costs. They implies

risk perceptions about financial products.

Neither of these dimensions contained a calculated variance of the financial risks that experts could use as indicators when making investment decisions. Since the purpose of the present study is to compare the financial perceptions of consumers and financial experts, we primarily focus on the three factors that influence financial perception: returns, risks, and costs.

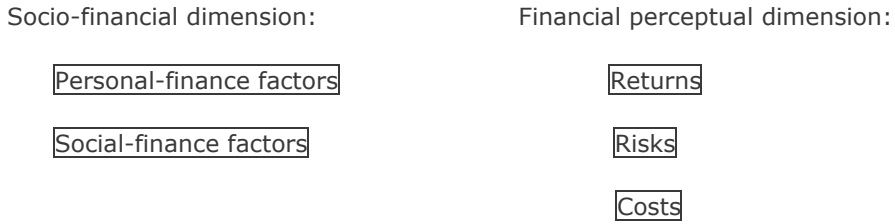


Figure 1. Two Dimensions of Perception for Financial Products

As shown in Figure 2 and 3, these factors are not necessarily independent of each other and seem to be overlapping. Further, these factors are the same as those found in our previous studies (Sasaki, 2011; Sasaki, et al., 2011), and may facilitate or inhibit investments in both the consumer and the expert groups.

The configurations of the dimensions of financial perceptions in the consumer and expert groups are presented in Figure 2 and 3 respectively. Regarding the financial perceptual dimensions, participants of both groups exhibited facilitating and inhibiting factors when investing. The numerals in parentheses indicate frequencies of the participants' comments.

As shown in Figure 2, the consumer groups mentioned that inadequate funds, their personal loss experiences, and limited knowledge about financial products tended to inhibit their investment in socio-financial dimension.

Regarding financial perceptual dimension, risk perception comprises unknown financial risks and previous financial losses, which inhibit investment. The safety of an asset, especially one involving less principal loss and vendor trustworthiness promoted consumers' investment decision. Safe assets like low risk products and the trustworthy vendors made consumers more safety-oriented. On the other hand, unknown risks made consumers more risk-averse. Regarding the return perception, the rate of interests promoted consumer investment (return-oriented). Cost perception were not reflected in consumers' financial perceptions.

The financial risk perceptions of financial experts are shown in Figure 3. Similar to consumers' perception, the experts' socio-financial perception comprised social and personal factors. While the social factors for financial experts were identical to those of consumers, their personal factors differed from those of the consumers. Regarding personal factors, experts' investments were restricted by the companies they worked for. For example, a worker of a

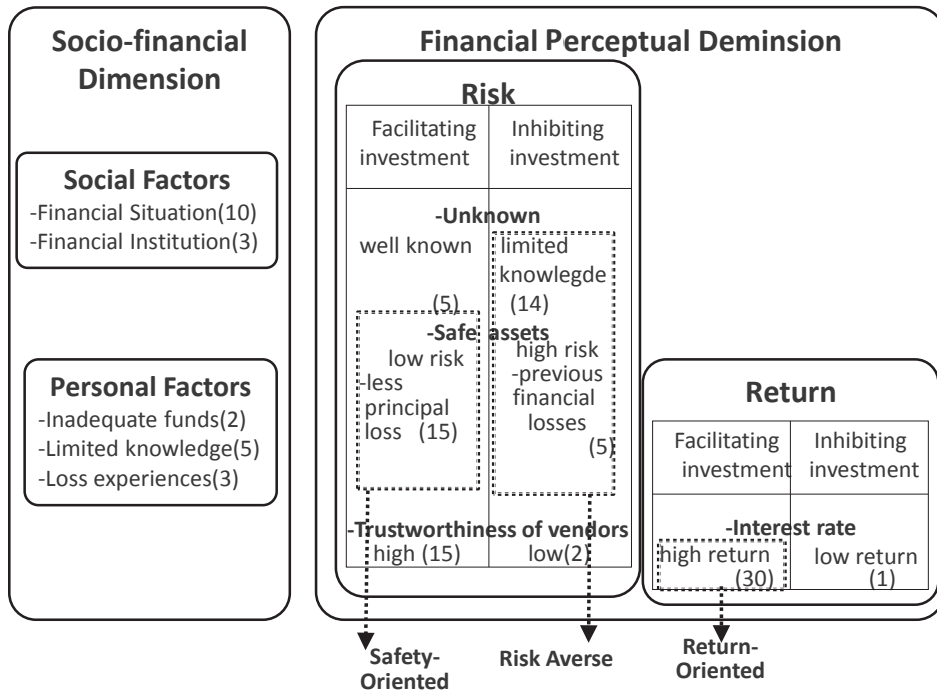


Figure 2. Consumers' attitudes towards financial products.

security company was not allowed to buy stocks in Japan; a banker in Japan must report their investment plans and records to their boss (job restrictions). Other personal factors including previous investment experiences and knowledge learned from their customers' cases like life cycle tended to restrict one's investment. According to financial experts, customers who had a rule in investment were good investors; for example, they believe, if the customer invests the upper limit of the required investment sum with limited loss.

Dimensions in the financial risk perception of financial experts consisted of perceptions of risk, return, and cost. They perceived various costs in purchasing financial products. Regarding the experts' cost perception, investment commission cost and time restrictions inhibited their investment. Regarding returns, they were interested in the financial profit rather than the interest rate. Like consumers' return perception, the experts' high return perception facilitated their investment, and low return perception inhibited their investment.

Regarding risk perception, unknown risks and the safety of invested assets had almost the same impacts on experts as on consumers. Few cases have been found wherein experts were willing to take high risks to gain high returns. Such behavior is referred to as high risk-high return oriented attitudes. Moreover, in the return perception, the experts believed that risk diversification promotes investment; however, excessive risk diversification results in lesser profits.

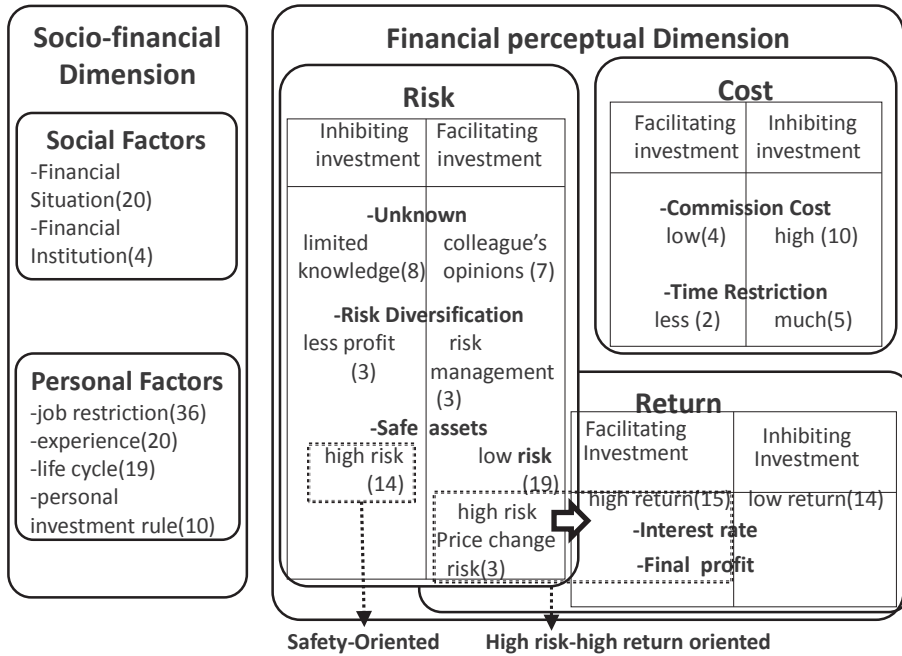


Figure 3. Financial experts' attitudes towards financial products

By comparing the dimensions of the two groups, we found differences in their financial perceptual dimensions. Only in the expert group, the perceptions of returns and risks overlapped (See the center of Figure 2 and 3). This indicates that the expert group took into account a balance between potential returns and risks for losses, while the consumer group considered returns and risks perceptions separately. Some experts dared to take risks in order to get much return, while the customers tended to avert risk and to safe asset devotedly.

The experts' perceptions of returns involved both facilitating and inhibiting factors on investment, while those of consumers involved only the facilitating factors. More specifically, the experts' perceptions of return meant that if they perceive lesser return, they are less motivated to invest.

As financial risks, the experts mentioned exchange risk, inflation risk, and default risk, while the consumers referred mainly to the trustworthiness of the vender in securities companies and banks. Although the structure of the experts' financial perception is almost the same as the consumers', experts' statements about the facilitating and inhibiting factors are more specific than the consumers'. Both of them were concerned about unknown risk and safety of an asset, but only the experts had a consideration for risk diversification.

A remarkable difference in financial attitudes between them was the perception of cost. That is, the customer group didn't perceive costs, while the expert group was sensitive to costs, specifically, commission and time restriction.

Discussion

The purpose of this study was to clarify the differences between consumers and financial experts in their financial perceptions associated with investment. We assumed that the consumers do not make investment decisions based on a calculated financial risk but rather on their mental model that consists of the social and financial perceptual dimensions. We interviewed with Japanese business workers as consumers or financial experts, inquiring about their perceptions on financial products and investment.

The contents-analysis of the interview data generally revealed that the dimensionality of the consumers' financial perception differed from the experts'. The consumers' financial risk perception were not consistent with the calculated variance of its financial value. The financial experts perceived both the variances of gains and losses in making investment decisions, but the consumers did not to perceive the risks involving returns. Especially the experts seemed to manage risks based on diversification in order to take much returns.

The results of this study suggest that the dimensionality of the experts' financial perceptions is more complex than that of the consumers'. The experts perceived specific financial risks associated with the balance between returns and risks while the consumers perceived financial risks separately from returns as the source of profits. The probability of a greater return facilitated both experts and the consumers to invest while the probability of reduction of returns inhibited only the experts.

From this point of view, consumers are assumed to be encouraged to invest by low financial risk but not by the return. In other words, a financial product having small profits may not satisfy the experts, but the consumers may be satisfied with the low risk product even though it does not make much profit.

We conducted this study using only six Japanese office workers to examine the differences between the consumers and the experts in their financial risk perception. Further research must be conducted to collect data and depend on not only by qualitative but also quantitative analyses, using a questionnaire, in order to more extensively examine the dimensionality of financial risk perceptions and motivations to invest.

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